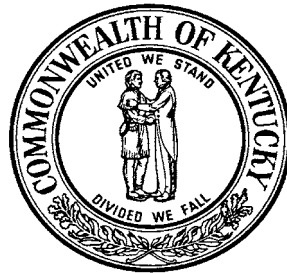


**REPORT OF THE AUDIT OF THE  
FORMER PENDLETON COUNTY  
CLERK**

**For The Period January 1, 2002  
Through June 30, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
[www.kyauditor.net](http://www.kyauditor.net)

144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER PENDLETON COUNTY CLERK**

**For The Period January 1, 2002  
Through June 30, 2002**

The Auditor of Public Accounts has completed the former Pendleton County Clerk's audit for the period January 1, 2002 through June 30, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The former County Clerk retired from office on June 30, 2002. The total receipts for this period were \$1,467,159 and disbursements were \$1,438,779 resulting in excess fees of \$28,380.

#### **Report Comment:**

- Lacks Adequate Segregation Of Duties

#### **Deposits:**

The former Clerk's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Hentry W. Bertram, Pendleton County Judge/Executive  
Honorable Bonnie S. Monroe, Former Pendleton County Clerk  
Honorable Rita Spencer, Pendleton County Clerk  
Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Clerk of Pendleton County, Kentucky, for the period January 1, 2002 through June 30, 2002. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Clerk for the period January 1, 2002 through June 30, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Hentry W. Bertram, Pendleton County Judge/Executive  
Honorable Bonnie S. Monroe, Former Pendleton County Clerk  
Honorable Rita Spencer, Pendleton County Clerk  
Members of the Pendleton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 22, 2003, on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
April 22, 2003



PENDLETON COUNTY  
 BONNIE S. MONROE, FORMER COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 2002 Through June 30, 2002

Receipts

State Fees For Services	\$	115
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Fiscal Court		203
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	233,607
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Usage Tax		559,558
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Tangible Personal Property Tax		574,204
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Licenses-

Marriage		1,898
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Occupational		909
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Deed Transfer Tax		10,682
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Delinquent Tax	32,088	1,412,946
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	4,724
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Real Estate Mortgages		15,451
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Chattel Mortgages and Financing Statements		17,724
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Powers of Attorney		292
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All Other Recordings		11,862
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Charges for Other Services-

Candidate Filing Fees		1,630
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Miscellaneous	2,194	53,877
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Interest		18
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Total Receipts	\$	1,467,159
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The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY  
 BONNIE S. MONROE, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Period January 1, 2002 Through June 30, 2002  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	188,176	
Usage Tax		542,911	
Tangible Personal Property Tax		213,433	

Licenses, Taxes, and Fees-

Delinquent Tax		3,959	
Legal Process Tax		5,777	
Candidate Filing Fees		930	
		<u>930</u>	\$ 955,186

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	63,129	
Delinquent Tax		4,168	
Deed Transfer Tax		9,976	
Occupational Licenses		<u>703</u>	77,976

Payments to Other Districts:

Tangible Personal Property Tax	\$	274,674	
Delinquent Tax		<u>13,982</u>	288,656

Payments to Sheriff 2,051

Payments to County Attorney 4,564

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	67,128	
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Materials and Supplies-

Supplies and Materials		2,152	
Delivery Charges (UPS)		679	
Utilities		1,268	

Other Charges-

Dues		500	
Postage		4,005	
Miscellaneous		<u>1,685</u>	<u>77,417</u>

Total Disbursements \$ 1,405,850

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY  
 BONNIE S. MONROE, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Period January 1, 2002 Through June 30, 2002  
 (Continued)

Net Receipts		\$	61,309
Less: Statutory Maximum			<u>31,129</u>
Excess Fees		\$	30,180
Less: Expense Allowance			<u>1,800</u>
Excess Fees Due County for The Period January 1, 2002 Through June 30, 2002		\$	28,380
Payments to County Treasurer - August 8, 2002	\$	22,134	
February 7, 2003		<u>6,246</u>	<u>28,380</u>
Balance Due at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at June 30, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 30, 2002  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the former County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former County Clerk's agent in the former County Clerk's name, or provided surety bond which named the former County Clerk as beneficiary/obligee on the bond.

Note 4. Grant

The former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives. As of January 1, 2002 the unexpended grant balance was \$23. No funds were expended January 1, 2002 through June 30, 2002. Therefore the unexpended grant balance was \$23 as of June 30, 2002.

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COMMENT AND RECOMMENDATION





PENDLETON COUNTY  
BONNIE S. MONROE, FORMER COUNTY CLERK  
COMMENT AND RECOMMENDATION

June 30, 2002

INTERNAL CONTROL-REPORTABLE CONDITION AND MATERIAL WEAKNESS

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accounts. Due to the entity's diversity of official operations, small size, and budget restrictions the official has few options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. Therefore the Auditor of Public Accounts has judged the lack of an adequate segregation of duties as a reportable condition and a material weakness.

Because of the limitations of the former Clerk's office it appears that only compensating controls may achieve an adequate segregation of duties. Compensating controls require the Clerk's direct supervision over receipts and disbursements and includes, but is not limited to the following:

- 1) Cash periodically recounted and deposited by the Clerk.
- 2) Surprise cash counts by the Clerk.
- 3) Periodic reconciliation by the Clerk of daily AVIS reports to receipts for usage tax, license fees, and tangible personal property taxes.
- 4) Periodic reconciliation by the Clerk of other monthly collection reports to source documents and the receipts and disbursements ledgers.
- 5) Requiring dual signatures on checks with one being that of the Clerk.
- 6) Examination by the Clerk of payroll checks prepared by another employee and delivering said checks.
- 7) Examination by the Clerk for proper documentation of other disbursement checks prepared by another employee.
- 8) Disbursements mailed by the Clerk.
- 9) Requiring employees to be cross-trained.
- 10) Requiring employees to take mandatory vacations.
- 11) Bank reconciliations prepared or periodically reviewed by the Clerk.
- 12) Publishing the financial statements.

We recommend that these controls be performed in order to offset a lack of adequate segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

*Former County Clerk's Response:*

*I understand.*

PENDLETON COUNTY  
BONNIE S. MONROE, FORMER COUNTY CLERK  
COMMENT AND RECOMMENDATION  
June 30, 2002  
(Continued)

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

*Former County Clerk's, Response:*

*I understand.*

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

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Honorable Rita Spencer, Pendleton County Clerk  
Members of the Pendleton County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former Pendleton County Clerk for the period January 1, 2002 through June 30, 2002, and have issued our report thereon dated April 22, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Pendleton County Clerk's financial statement for the period January 1, 2002 through June 30, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Pendleton County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation section.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
April 22, 2003

